

NEW OVERTIME RULE IMPLEMENTS SALARY THRESHOLD ADJUSTMENTS

A significant law recently enacted by the Department of Labor (DOL) has introduced changes to the overtime rule, impacting businesses across various industries. This new rule implements adjustments to the salary threshold for exempt employees, affecting how businesses classify and compensate their workforce. The implications of this rule extend to employers who must navigate compliance requirements and potential adjustments to salary structures. Understanding these changes is crucial for businesses to ensure adherence to labor regulations and fair compensation practices.

Overtime Regulation Update

The Department of Labor's (DOL) [new overtime regulation](#), set to go into effect on **July 1, 2024**, aims to extend overtime pay protections to a larger segment of salaried workers in the U.S.

As a refresher, certain workers are excluded from the minimum wage and overtime protections of the FLSA, including bona fide executive, administrative, or professional employees. This exemption, known as the "EAP" exemption (executive, administrative, and professional), applies under the following conditions:

- The employee is paid a salary,
- The salary meets or exceeds [a specified minimum threshold](#), and
- The employee's primary duties involve [executive, administrative, or professional tasks](#).

Here's what business owners need to know about the updated thresholds:

Key Details

- The DOL's final rule increases the standard salary level for defining overtime eligibility. Currently set at \$684 per week (\$35,568 annually), the new rule will raise this threshold to \$844 per week (\$43,888 annually) on July 1, 2024.

- By January 1, 2025, the salary threshold will further increase to \$1,128 per week (\$58,656 annually), significantly expanding the pool of workers eligible for overtime pay.
- Highly compensated employees (HCEs) will also be affected, with the total annual compensation threshold increasing from \$107,432 to \$132,964 on July 1, 2024, and to \$151,164 on January 1, 2025.

DATE	STANDARD SALARY LEVEL	HIGHLY COMPENSATED EMPLOYEE TOTAL ANNUAL COMPENSATION THRESHOLD
Before July 1, 2024	\$684 per week (equivalent to \$35,568 per year)	\$107,432 per year, including at least \$684 per week paid on a salary or fee basis.
July 1, 2024	\$844 per week (equivalent to \$43,888 per year)	\$132,964 per year, including at least \$844 per week paid on a salary or fee basis.
January 1, 2025	\$1,128 per week (equivalent to \$58,656 per year)	\$151,164 per year, including at least \$1,128 per week paid on a salary or fee basis.
July 1, 2027, and every 3 years thereafter	To be determined by applying available data to the methodology used to set the salary level in effect at the time of the update.	To be determined by applying available data to the methodology used to set the salary level in effect at the time of the update.

(Chart provided by Department of Labor: <https://www.dol.gov/agencies/whd/overtime/rulemaking>)

Background

Historically, the salary threshold has been a fixed amount that has not changed with inflation. The DOL previously updated the fixed salary threshold three times in the last 50 years. Previous thresholds set below which workers were entitled to overtime pay:

- In 1975 at \$250 per week, or \$13,000 annually.
- In 2004 at \$455 per week, or \$23,660 annually.
- In 2019, at \$684 per week, or \$35,568 annually.

The DOL's 2016 proposed rule was blocked in US District Court in Texas just 9 days before the rule came into effect because the judge agreed with plaintiffs in a suit that the DOL had raised the salary threshold so high that the Duties Test became irrelevant; however, the judge did state that the DOL can set the minimum salary level and adjust that level based on inflation. The DOL had wanted to set the minimum salary at \$47,476, which was over double the minimum annual salary at the time (\$23,660). In 2019, the DOL was successful in raising the minimum salary to \$35,568, the current limit.

Implications for Employers:

Employers must assess the classification of salaried employees to ensure compliance with the updated salary thresholds.

For employees affected by the new rule, employers have several options:

- Adjust salaries to meet the new thresholds to maintain exempt status.
- Prepare to pay overtime to affected employees who will become eligible under the new thresholds.

Employers face a strategic decision regarding the timing of salary adjustments to meet new thresholds. While a two-part approach offers flexibility by spreading out the increase, some employers may prefer to address both updates simultaneously to streamline the process and avoid duplicative efforts for affected employees.

This decision requires careful consideration of practicalities and employer preferences to ensure a smooth transition while meeting regulatory requirements efficiently.

Additionally, adjustments to schedules may be necessary to control overtime costs. It's crucial to communicate openly with affected employees to explain changes from exempt to nonexempt status.

We recommend employers strategize the rollout of reclassification decisions, including training reclassified employees on timekeeping regulations and addressing employee concerns.

Next Steps for Employers

Navigating this new regulation requires proactive engagement to ensure compliance and mitigate potential risks. By evaluating workforce practices, communicating effectively with employees, and staying abreast of legal developments, business owners can adapt their strategies to align with evolving legal standards and protect their business interests effectively.

Understanding the nuances of this law and seeking appropriate legal counsel when appropriate will be essential for navigating the complexities of the regulatory landscape and ensuring the continued success of your business.

We will continue to monitor developments closely and keep you informed of any updates or changes that may impact your business.

For More Information

If you have any questions, please contact our HR team at **210-775-6082**, toll-free at **1-888-757-2104**, or HRmanagement@BFGonline.com.



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